



LEGAL DEPARTMENT

November 7, 2008

TOM SAFLEY
SENIOR COUNSEL
ENVIRONMENTAL, HEALTH & SAFETY

VIA CERTIFIED U.S. MAIL

Lorna M. Jereza
U.S. EPA Region 5 - Mail Code LR-8J
77 West Jackson Boulevard
Chicago, IL 60604-3590

Re: EPA Questions regarding Koch Pipeline Company, LP Self-Disclosure of Potential RCRA Violations

Dear Ms. Jereza:

This correspondence is sent on behalf of Koch Pipeline Company, LP ("KPL") in response to your correspondence dated October 23, 2008, as supplemented by the e-mail message of Ms. Gracie Scambiaterra of your staff to the undersigned dated October 27, 2008. Those communications both related to KPL's July 18, 2008 correspondence to EPA under EPA's "Incentives for Self-Policing: Discovery, Disclosure, Correction, and Prevention of Violations" policy, 65 Fed. Reg. 19618 (11 April 2000) (the "Audit Policy"), self-disclosing potential violations of the Resource Conservation and Recovery Act, 42 U.S.C. 6901 *et seq.* ("RCRA"), as implemented through authorized state programs, as well as KPL's subsequent correspondence to EPA dated August 29, 2008, and September 26, 2008.

KPL appreciates the opportunity to further communicate with EPA regarding KPL's self-disclosure under the Audit Policy. KPL has responded to your questions below, using the headings contained in your October 23, 2008 correspondence.

Corporate Structure

Koch Pipeline Company, LP is a limited partnership that is an indirect subsidiary of Koch Industries, Inc. As a subsidiary, it is a separate legal entity with its own officers and a general partner, Koch Pipeline Company, LLC, who are responsible for the management of its business and operations.

Audit Policy Criteria

KPL discussed the application of each criterion of the Audit Policy to this matter in KPL's initial correspondence to EPA dated July 18, 2008. KPL incorporates that discussion herein, in response to the questions posed in your October 23, 2008 correspondence, and further responds to those questions as follows:

1. Discovery of Potential Violations

As explained in our July 18, 2008 disclosure letter to EPA, and in our August 29, 2008 and September 26, 2008 supplemental disclosure letters to EPA, the disclosed potential violations in those letters were

discovered during the course of a voluntary audit of KPL's waste management procedures for above-ground storage tank cleanouts at tanks located in the north central United States. The audit was conducted by a team of operations personnel and environmental professionals, under the direction of, and with support from, counsel for the company. Each issue that was disclosed arose from the facts gathered by the audit team. Fact gathering was accomplished through the review of records and the conduct of interviews.

2. Audit Details

KPL utilizes periodic audits as a key part of its compliance management system. KPL conducts all audits – including the audit which led to the disclosure of potential violations to EPA that is the subject of this correspondence – in compliance with KPL's Audit and Assessment Guideline (G130.010) ("KPL Audit Guideline"), a copy of which is enclosed. As stated in this Guideline, KPL Audits serve "to verify application of established KPL Policies, Standards, Guidelines, Technical Guidelines, Programs, and Procedures of KPL, as well as helping to assure regulatory and statutory compliance." KPL Audit Guideline, Section 1.0. Thus, as with all of KPL's audits, the purposes of this audit included:

- Assessing KPL's regulatory and statutory compliance;
- Identifying needs and opportunities for improvement to programs to meet KPL's vision for Compliance Assurance; and,
- Providing feedback to KPL employees and leaders on their application of KPL Policies, Standards, Technical Guidelines, Guidelines, Programs, Manuals, and Procedures.

See id.

- A. With respect to the disclosed violations, the self-assessment activity began on or about Friday, June 20, 2008 or Monday, June 23, 2008, and continued through October 28, 2008.
- B. KPL's Audit Guideline provides both for periodic scheduled and unscheduled audits and self-assessments, the frequency of which is based on type and complexity of the operations. The last scheduled environmental audit of the Hartford, IL station was performed in October 2003. The audit that led to the discovery of the potential violations that KPL disclosed to EPA was an unscheduled audit.
- C. KPL's Audit Guideline requires follow-up on audit findings to correct identified problems and prevent their recurrence. Target dates for completion of corrective action are established, and corrective actions tracked by KPL Compliance personnel to ensure proper closure. See KPL Audit Guideline, Section 4.5.12.
- D. KPL's Hartford, Illinois facility (the "Facility") is a crude oil station operated by KPL's Northern Operating Group ("NOG"). The audit was performed by:
 - Doug Losee, KPL NOG Environmental Manager
 - Andy Truhan, Koch Industries, Inc. ("KII") EH&S Compliance System Manager
 - Steve Hartson, KPL Environmental Capability Leader
 - Bobby Hill, KPL SOG Environmental Manager
 - Jim Andrew, KPL Director of Compliance
 - Steve Richmond, Beveridge & Diamond, P.C., outside environmental legal counsel

The audit was designed to provide an objective review of facts. The audit team was directed by outside counsel for the company, and the contours of the audit were determined in advance. Fact gathering was conducted primarily by Mr. Losee and Mr. Truhan, and neither individual was responsible for reviewing his own past activities during the review. Mr. Richmond and company lawyers directed and supervised the conduct of the audit.

- E. KPL operates under a documented management system which includes a Compliance Assurance department. Auditing initiatives are implemented through KPL's Compliance Assurance system. The KPL Audit and Assessment Guideline (G130.010) contains KPL's audit policies and procedures, and is a critical tool utilized in compliance efforts. This document describes the process by which audits are commissioned and executed. Additionally, it details the procedures for compiling, evaluating, and resolving audit findings, as well as communicating audit results. See KPL's Audit Guideline, enclosed.

3. Identity of Auditors

See response to question 2.D. above.

4. Independent Auditor

The potential violations were not discovered solely by an independent auditor, but by the audit team identified above, which team included KPL employees.

5. Correction of Potential Violations

As noted above, most of the potential violations were one-time events that were no longer correctable at the time they were discovered. Those potential violations that were correctable were corrected within sixty days of discovery. See KPL's August 29, 2008 and September 26, 2008 correspondence and enclosures thereto with regard to the corrective actions completed by KPL. These actions were completed within sixty days of discovery.

6. Measures to Prevent Repeat Violations

As discussed in each of KPL's audit correspondence, KPL first implemented a revised QA/QC review process for waste shipments, then instituted an interim policy requiring legal and management oversight of all off-site shipments of operational wastes. This interim policy requires that all off-site shipments of operational wastes be reviewed not only by KPL environmental personnel, but also by in-house legal counsel, and, in some cases, by outside legal counsel.

As also disclosed in that correspondence, KPL is continuing to revise its current waste management procedures to ensure proper characterization and management of operational wastes in the future. Once complete, the revised procedures will be reviewed by an outside environmental consultant as a quality control check. Further, KPL will review the operation of the policies periodically to ensure they are being implemented effectively.

7. Harm from Potential Violations

The potential violations did not result in any serious actual harm to human health or the environment. The wastes were drummed at the Facility, were not released to the environment, and did not threaten or cause any adverse health effects to any persons. Further, the wastes for which the ultimate disposal location can

be confirmed ultimately were disposed in Subtitle D permitted solid waste landfills. KPL believes that the wastes involved in the disclosed incidents were very similar in their toxicity characteristics to wastes which are permissibly disposed of in Subtitle D landfills under the petroleum contaminated media and debris exemption from the hazardous waste regulations contained at 40 CFR 261.4(b)(10). While this would not excuse a violation, it would strongly suggest that EPA has determined that very similar wastes may be placed in Subtitle D landfills without causing serious actual harm to human health or the environment, or unacceptable danger to public health or the environment.

8. Endangerment from Potential Violations

For the reasons stated in response to Question 7 above, the potential violations did not result in any endangerment to public health or the environment.

Facility Compliance

With regard to "facility compliance," as discussed in KPL's previous correspondence, the specific violations disclosed to EPA have not, to KPL's knowledge, been identified in a judicial or administrative order, consent agreement or order, complaint, or notice of violation, conviction or plea agreement, or an omission for which KPL has previously received penalty mitigation (collectively, a "Violation"), within the past three years at KPL's Hartford Facility, and are not part of a pattern of such Violations by KPL within the past 5 years. In further response to your questions, KPL states as follows:

Facility Type:	Crude Oil Pipeline Station
Facility Address:	480 Robbins Road, Hartford, Illinois 62048
Date Facility Began Operations:	1981
Chemical(s) involved other than benzene:	none
Capacity of tank(s) or other equipment:	55 gallon drums
Date audit team discovered possible noncompliance:	June 30, 2008
Individuals who discovered potential violations:	Doug Losee, KPL Andy Truhan, Koch Industries, Inc. Steve Richmond, Beveridge & Diamond, P.C.
Date EPA notified of possible noncompliance:	July 18, 2008
Date potential violations corrected:	August 29, 2008 ¹
Date of remedial actions:	not applicable

Cost of Return to Compliance

As discussed above, the majority of the potential violations disclosed to EPA were no longer correctable by the time KPL discovered them. The only corrective actions that were possible to return the facility to compliance were:

1. The filing of corrective annual hazardous waste reports with the State of Illinois. See KPL's August 29, 2008 correspondence and the attachments thereto. These reports were prepared by internal staff, took minimal time (less than 12 hours) and involved minimal cost.

¹ As indicated at page 2 of KPL's correspondence to EPA dated August 29, 2008, on that date, KPL corrected the 2005 and 2006 potential violations to the extent possible by filing corrective 2005 and 2006 annual hazardous waste reports with the State of Illinois. Any other 2005 or 2006 potential violations were no longer correctable at the time they were discovered, because the wastes at issue already had been transported from the KPL facility and disposed. For the same reason, the potential violations of 40 CFR § 262.11 in 2007 likewise were no longer correctable at the time they were discovered.

Lorna M. Jereza

11/7/2008

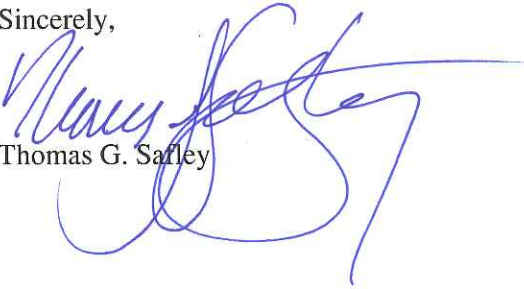
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2. The analysis of the liquid oil sample discussed in KPL's September 26, 2008 supplemental disclosure letter. See KPL's September 26, 2008 correspondence, page 2, and attachment. The cost of analyzing this sample was \$126.50.

Conclusion

Again, KPL appreciates the opportunity to communicate with EPA regarding this matter. If you have any questions or require additional information about the details, discovery, or disclosure of the waste management issues for this Facility, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Thomas G. Sailey", with a large, stylized flourish extending from the end of the signature.

Thomas G. Sailey

TGS/hye

Enclosure